

# The Impact of the COVID-19 Pandemic on Social Capital Among Small Entrepreneurs in Indonesia

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**Abstract:** One of the various fields in economy being affected by this COVID-19 pandemic is the sector of the Micro, Small, and Medium Enterprises (MSMEs) as stated on the basis of the data obtained from the Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia showing that 1,785 cooperatives and 163,713 actors of MSMEs were affected by the COVID-19 (Corona Virus) pandemic. From a number of cooperatives influenced by the COVID-19, it is the MSME sector working on the field of food and beverages that mostly feels the impact. This condition greatly aggravates the small entrepreneurs, therefore it is urgent to discuss first the existence of the small entrepreneurs to survive in their business, second, what efforts the small entrepreneurs do in maintaining their social capital in this pandemic period and third, what efforts they would make to rise from adversity. The findings of this study showed that in this pandemic period, among the owners of enterprises and their customers, there have been growing feelings of sympathy, and also socioemotional values that produce socioemotional goods. The efforts made by the small entrepreneurs to rise from adversity in this COVID-19 period cause shifts and changes of the consumer buying pattern namely through online sales. The rapid development of technology results in a consequence that the business people should quickly respond it by learning and understanding digital marketing.

**Key Words:** the COVID-19 pandemic, social capital, small entrepreneurs.

## 1. INTRODUCTION

One of the various fields in the economy affected by the COVID-19 pandemic is the MSME (Micro, Small, and Medium Enterprises) sector as shown by the data from the Ministry of Cooperatives and Small and Medium Enterprises showing that from 1,785 cooperatives and 163,713 actors of the MSMEs have been affected by the COVID-19 pandemic. A number of cooperatives affected by the COVID-19 engage in the daily needs, while the MSME sector that is mostly affected works in the foods and beverage [1].

Malang Raya as a region with high economic movement in East Java has also been impacted by this pandemic, there were almost 1,600 MSMEs that experienced near death and could not produce anything or did their business. This condition occurred from March to September 2020. The complaints about the decrease in the number of buyers were the impacts from the implementation of the COVID-19 prevention policy from May to July 2020, from the large scale social restriction to the operating hours rules [2]. Meanwhile, the food and beverages sector still survived, although the gained turnover reduced. From the phenomena above, what is interesting to reveal is first, the existence of the small entrepreneurs due to the impact of the COVID-19 pandemic, second, the efforts made by the small entrepreneurs to keep social capital in the pandemic period, third, the efforts made by the small entrepreneurs to rise from adversity. The objective of this present research was to describe the existence of small entrepreneurs due to the effects of the COVID-19 pandemic and their efforts to keep social capital and their efforts made to rise from adversity.

## 2. LITERATURE REVIEW

From Dani's [3] research results it can be concluded that the MSMEs sector was affected by the COVID-19 pandemic. The consecutive effects were the decrease in sales, the difficulty in capital, the hindrances in product distribution, and even the difficulty in getting raw materials. The government

has made a policy to empower the MSMEs in this COVID-19 pandemic. There are some schemes in protecting the MSMEs that have been established by the government: (a) providing assistance to the poor and fragile actors of the MSMEs; (b) tax incentives for the MSMEs; (c) relaxation and restructurization of the state-owned enterprises and local government as the buffers of the MSMEs products; (e) trainings with the cost that can be paid on credit for the MSMEs; (f) the expansion of the working capital financing of the MSMEs; (d) establishing a ministry of e-learning. To support the government policies, some short-term and long-term strategies should be considered by the government. The short-term strategies deal with the strict application of the health protocol, giving opportunities and encouragement of the digital services as the supports of the MSMEs, the socialization given to the association of entrepreneurs, the simplification of the administration process, and the efforts to encourage the changes of the business strategy. The long-term strategies are related to the efforts to prepare the road map of the MSMEs development, build the digital technology as a platform in the business process of the MSMEs, develop a modern business model of the MSMEs, and encourage the collaboration between the government and the corporations in empowering the MSMEs.

Pakpahan's [4]research intended to help the MSMEs to survive in this pandemic situation was conducted by making use of the CSR fund from the private corporations and the state-owned enterprises. The government should provide instructions and guidance for all state-owned- enterprises to transfer their CSR fund to assist the MSMEs affected by the COVID-19 pandemic. State-own enterprises may involve the MSMEs in the production process of the products that may be filled by the workers of theMSMEs.

Amri's [5]research described that the turnover of the actors of the MSMEs and Cooperatives due to the COVID-19 pandemic significantly decreased since the pandemic has occurred in Indonesia at the beginning of the 2020, where one of the sectors greatly affected is tourism industry. The impact of the decrease in the tourism industry on th existence of the MSMEs working on the micro, small, and medium enterprises of food and beverages reached 27%, 1.77% and 0.07%, respectively. The COVID-19 pandemic also impacted the wood and rattan craft units existing at the micro enterprises reaching 17.03%. For the small scale industry in the wood and rattan crafts, the impact was 1.77%, for the middle scale enterprises, 0.01% and this affected the household consumption from 0.5% to0.8%.

From Pratiwi's [6]research results it can be predicted that the higher number of the COVID-19 cases in Indonesia might make nightmares longer for the actors of MSMEs, especially in Indonesia. Various policies such as social distancing, physical distancing and large scale social restrictions made by the government clearly have limited people's mobilization greatly and this could affect the slowing down of the economic activities that may directly influence the people's behavior in fulfilling their supply and demandlimitedly.

Another research conducted by Hardilawati [7]showed that there were some strategies to maintain the continuation of the small enterprises namely: (1) making sales online. (2) doing products marketing by making use of digital marketing that may reach many more consumers. (3) improving the products and services quality. (4) conducting customer relationship marketing to create consumer trust and grow customerloyalty.

Portes, [8]defines social capital as one's capability of getting the benefits from the goodness of the membership in a social network or structure, while Coleman [9]gives the definition of social capital as all aspects that lead to and are created to facilitate an individual' s actions in a social structure. Such a social structure bears social encouragement to have more power over an individual's behavior. The social encouragement adjusted with the social norms cover dominant culture, the influence of other social power on more generalbehavior.

Coleman then developed his thought of social capital through his great works published two years later with the title of Foundations of Social Theory. In the book, Coleman [10]stated among other that social capital, like capital of economy, is productive. Without social capital, one will not be able to get material advantages and reach other success optimally. Like other capitals, such as physical and human capitals, social capital does not always give advantages in all situations, but its benefits are merelyfeltuncertain situations.Aformofsocialcapitalmaybebeneficialtofacilitatesomeonetotake actions in a certain situation, and in another situation it is not useful and even it may cause loss.

Pierre Bourdieu [11] stated that in order to be able to understand the structure and the way the social world functions, it is necessary to discuss capital in all of its forms, and it is not enough to talk about capital as it is known in the economic theories. Economic capital, according to Bourdieu, may be easily converted into the form of money, and may be institutionalized in the form of ownership rights. But, in a certain condition, cultural capital may also be converted into capital with economic values and may be institutionalized such as education quality. It may also happen to social capital, in a certain condition it may be converted into economic capital.

Putnam's [12] view on social capital in the form of norms and interrelated networks is a precondition for economic development. Moreover, it also a prerequisite which is absolutely needed to create good and effective governance. There three reasons for Putnam to say that. First, there is a social network enabling coordination and communication that may grow mutual trust among the members of the society. Second, trust gives positive implications in social life. This may be proved from the fact that mutual trust among people in a social network strengthens norms on the necessity to help one another. Third, various success reached through cooperation in the previous time in this network will encourage the continuation of the next cooperation.

The importance of trust in reaching economic prosperity was given special attention in a research conducted by Fukuyama [13]. He said that trust emerges when the society shares adequate moral values to grow sincerity behavior among community members.

Robison et al [14] said that in various economic transactions, those with social capital will get greater benefits than those without it. Social capital, according to Robison, is a feeling of sympathy from someone or a group of people to someone or other groups of people. The feeling of sympathy may be in the form of adoration, attention, concern, empathy, appreciation, responsibility, or trust to someone or a group of people. According to Robison, the extent to which the value of social capital one possesses over the other person is determined by the level of elements such as adoration, attention, concern and others someone feels to others.

The additional value from the feeling of sympathy described in the above examples is called as socioemotional goods. It is because the value is formed by feelings or emotions possessed by someone to others. The value beyond the value of this sympathy is ordinary economic transaction values or intrinsic values of a good. Meanwhile the value attachment of something coming from the socioemotional condition may be said as nominal values where the content of the values is determined by personal attitudes. It is the value attachment which is considered as determinant of social capital. In the daily life of the people, there are a lot of examples of how the value attachment shows social capital one owns. While the spcioemotional value in the social capital in the form of attention from one group to another may also be seen from how far the linking social capital is, as reflected from the cooperation made to reach a certain goal.

In Indonesia, the concept of small entrepreneur is defined as someone who has a small enterprise and the enterprise is an enterprise that hires the number of workers of labor less than 50 persons, or on the basis of the Regulation No. 9 Year 1995 that the category of a small enterprises is the enterprise with most net worth of 200.000.000 IDR (excluding land and building); most sales of 1.000.000.000 IDR possession Indonesia citizens, instead of affiliation of other enterprises (autonomous) and in the form of individual business, business entity or cooperative. Another definition shows that small enterprise is a small company with relatively small operation, usually with total income of lees than 5 millions IDR. This company in general (a) is managed by the owner himself, (b) possesses some other owners, if any, (c) actively involves all possessors in handling the company businesses except certain family members, (d) has rarely been transferred in terms of the ownership rights, and (e) has a simple capital structure [15].

Small enterprise based on the Law No. 20 year 2008 [16] is a productive economic business which is autonomously operated by an individual or a business entity which is not the subsidiary possessed, managed, or becomes a direct or indirect part, while according to the Central Bureau of Statistics (BPS) in 2008 it is a small enterprise which is identical with a small industry and a home industry which is classified on the basis of the number of wealth namely the category of home industry with the number of workers of ( 1-4, (b) 5-19 persons, and (c) 20-29 persons.

### 3. METHODOLOGY

In this present research, an emphasis was given to a qualitative approach with modified descriptive type due to this pandemic period. The research site was East Java province covering Malang Regency, Malang city and Batu city areas since these three areas have the same characteristics as tourism destination and education city where a lot of MSMEs grow as a consequence from the city development as education city and tourism destination.

A purposive sampling was employed to select the subject, namely it was based on criteria which are made in line with the research objectives. The criteria were small entrepreneurs who were directly affected by the COVID-19 pandemic and they lived in Malang Raya as the education and tourism cities namely: the small entrepreneurs working on (1) souvenirs; (2) food and beverages. (3) services.

From the criteria, 3 (three) small entrepreneurs in the field of selling souvenirs and 1 (one) in the field of selling food and beverages were found, and 2 (two) in the field of party equipment rental and shoe and bag washing services. So that, the whole number of entrepreneurs was 6 (six) becoming the subject.

The data were collected through structured interviews because in this pandemic situation it was impossible to do participatory observations. In the structured interviews, the information technology adopted was by phones and WhatsApp.

The data collected through structured interviews technique and documentation were then analyzed using three data analysis stages: data condensation, data display, conclusion drawing or verification. Data condensation refers to the selecting, focusing, simplifying, abstracting and transforming processes. In detail, see [17]

### 4. RESULTS AND DISCUSSION

#### 4.1. The Agreed Values in Small Enterprise

The apple chips enterprise owned by Nabila Saskia had the turnover of 1,500,000 IDR. The apple chips product is targeted as Malang souvenir product. The value agreed in managing the apple chip enterprise was “good work ethic” and it had been adopted in its establishment, so that when the COVID-19 pandemic broke out, this value was more importantly realized to maintain this small enterprise.

The owner of the shoe and bag washing service, Faisal, had the turnover of 2,000,000 IDR. The product of this service is in the form of washing bags and where the customers are university students living in Malang city. The value agreed was “commitment to pay”, this value was still strictly hold regardless of the pandemic situation. It means that in this dire situation, pay should be given to the workers, and it should be well attended.

The owner of the party equipment rental enterprise is ReynaldiTegar with the turnover of 8,000,000 IDR. It was a service which may be categorized into the worst group, due to social distancing restrictions so that events that bring a lot of people together such as wedding party, birthday party, circumcision party, seminar and the like were forbidden. As a result, the incomes of this enterprise dropped drastically up to 50% or less. In this condition, the owner of this enterprise should be able to get certain routine incomes each month, remembering that he should pay his 4 workers. The agreed value was “working on time with decent wages”. This value was still maintained and inherent in the owner and workers although it was in the pandemic condition.

The owner of special souvenirs and handicraft was Linda Khurin Aini with the turnover of 1,500,000 IDR per month. The agreed value in this enterprise was “there is always bonus for each achievement”, this kind of value may arouse spirit and encourage the improvement of sale quantity. However in this pandemic condition, the turnover of this enterprise decreased up to 90%.

The owner of the enterprise of food and beverages in the form of rice with sambeluleg (mashed sauce chili) was TivaniSilfa who did not openly say this turnover, but she stated that his turnover decreased up to 50%. The agreed value in this enterprise was “being responsible, on time and sincere,” and this value was still maintained although in this pandemic time, there were a lot of obstacles to encounter.

The owner of Garut Food souvenirs was SintaKristianingrum with the turnover of 6,000,000 IDR per month but this turnover decreased to almost 70% during this pandemic period. The agreed value was



“sincerity”, this value is important to grow the consumers’ trust so that they would become loyal customers.

The decreasing turnover (the amount of money from selling certain goods/services for a certain selling period) condition (showed the low profit (a difference between the income and the costs and expenditures balance for a certain period)).

### 4.2. Small Entrepreneurs’ (MSME) Effort in Maintaining Social Capital in the Pandemic Period

The entrepreneurs who are individually making transactions in the market may also play important roles in developing social capital. This can be explained by using the concept of social capital proposed by Robinston [14].

As stated above, that the value of social capital is determined by the elements of adoration or concern and the extent to which the value of social capital possessed by someone over the other is determined by how far the elements were in the form of adoration, attention, concern and others over the other.

This can be found in the buying and selling business in the market. A buyer who is sympathy to a friendly seller of fruits or vegetable will directly pay the price of the goods bought without bargaining. Even if the buyer knows the economic difficulty experienced by the seller, she will gladly pay more or may also give the change money to the seller.

This may also happen in this pandemic condition where it may flourish mutual sympathy between owners of enterprises and their customers. The sympathy value is the value attachment showing social capital one possesses. Whereas, the socioemotional value in social capital in the form of attention given by a group of customers to a group of enterprises owners also grows because of the pandemic condition which is felt together.

The socioemotional value may also be found in this pandemic condition, because they feel that they face the trials together namely the buyers do not bargain the price or do not ask for discount. It is between the owner/sellers and the customers with established social tie that then the goods, foods, and services sold become socioemotional goods. This term is used because the value is formed by the feelings of emotions from someone (customers) to the other (sellers or enterprise owners). The value out of this sympathy value is that of ordinary economic value or the intrinsic value of a good. As stated by Robinston that socioemotional goods are products of social capital, and the social capital is resulted in or produced from the interaction and relation.

Efforts made by the owner of an enterprise is to maintain his business by keeping relation with his consumers one of which is by maintaining services. This is conducted by the owner of the Papins Chips and the owner of Shoe and Bag washing enterprise. Whereas the owner of the party equipment rental enterprises and of Special souvenirs and Handicraft still stick to his other additional business. For the owner of the foods and beverage enterprises and of the Garut Foods still persist with the same pattern of services.



Figure1. Product of Garut Food



Figure2. Product of Special foods

### 4.3. Small Entrepreneurs’ Effort in Rising from Enterprise Diversity

This COVID-19 pandemic causes shifts and changes in the consumer buying pattern. Usually although online sales exist, there are still a lot of consumers who buy directly to shops or shopping centers. At present, since there is a restriction and also regulation made by the government stating that no one is allowed to leave the house, as a consequence it is impossible for the consumers to be outside

their houses for a long time. The actors of MSMEs or small entrepreneurs should also adapt themselves and condition their products and services sales. It is necessary to improve the products quality and services adjustment to be able to attract consumers. According to [18]“the product quality is the ability of a product to show its functions, including its whole durability, reliability, accuracy, and ease of operation and its reparation and other attributes of other products.”

What is meant by the service quality is the expected level of superiority and the control of the level of superiority to fulfill the customer’s desire or how good is the level of service given may be in line with his expectation. Tripayana’s[19] and Lestari & R [20]research results revealed that product and service qualities significantly affect the purchase of the consumers and the improvement of the customers’ satisfaction so that in turn customer’s loyalty is formed.

The subject trying to improve the service is the owner of the food and beverages by giving great attention to the cleanliness since in his opinion, customers will be more sensitive to the cleanliness and hygiene of the products sold. The owner of the GarutFoods tried to improve their services by providing the customers with COD in the adjusted place, sending the order on time, improving packaging so that the foods are safe and neat, and determining more competitive price.

Amid this COVID-19, direct selling in general decreased due to the people who tend stay at home. Moreover, many MSMEs or entrepreneurs chose not to open their shops or business because of the operational hour restriction or the enforcement of the Wide Scale Social Restriction in some areas including Malang Raya. One of the ways to keep running the business and reaching many more consumers and widening the market share that may be done by the actors of the MSMEs is to expand the network by making use of sales through online media (social media).

The subject practicing the marketing through online media is the owner of Papins Chips (Apple chips) besides maintaining the taste (product quality). The owner of the shoe and bag cleaning service also did online marketing. It is what is called as digital marketing. Digital marketing is an activity of promotion and searching for markets through digital media via online by making use of various facility for instance social network [21]. The way to do digital marketing often used by the entrepreneurs by using social media such as through Instagram, Facebook, Twitter and many more. Moreover, digital marketing may also be done for e-commerce and many other media. The rapid development of technology causes a consequence that the entrepreneurs should give quick responses by learn and understand digital marketing.



Figure3. Product of Papins Chips



Figure4. Shoe and bag washing services

Two other subjects namely the owner of Party Equipment rental tended to decide to change their business by selling food “*lontongkupang*”. While the subject of the owner of *Souvenirs and Handicraft* tended to add a business of selling *Jasuke and Martabak*. This decision was considered to be able to solve the problems they faced instead of maintaining their existing products.

## 5. CONCLUSION

The findings above show that the small entrepreneurs possess social capital that enable them to survive, and it is in line with Robinson’s statement that in various economic transactions, the people who have social capital will get more benefits than those who do not. Goods or services sold in the pandemic period becomes socioemotional goods as products from the existing social capital in the form of the customers’ trust to the owners of the enterprises and norms internally built in the enterprises and the existing networks.

Small entrepreneurs take various steps to make their business may survive in this pandemic period namely (1) making sales through social media because there are a lot of people who switch to online shopping. (2) doing product marketing by making use the digital technology (digital marketing) to be able to reach many mode consumers. (3) making improvements of the products quality and quality and type of services to maintain consumers' trust and grow theirloyalty.

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